

*Reserve Bank of India Occasional Papers*  
*Vol. 32. No. 1, Summer 2011*

**The Rise of Indian multinationals: Perspective of Indian Outward Foreign Direct Investment, edited by Karl P. Sauvant and Jaya Prakash Pradhan with Ayesha Chatterjee and Brian Harley (Palgrave MacMillan: New York), 2010; pp 284, £90.**

The book on ‘The Rise of Indian multinationals – Perspective of Indian Outward Foreign Direct Investment’ is one of the finest books recently published on Indian MNCs. The book, spread over nine different chapters contributed by noted experts on the subject, provides different perspectives on the rise of Indian multinational corporations. Broadly this book can be classified into three sections. First, an analytical perspective on the rise of Indian MNEs. Second, study of India’s outward foreign direct investment (OFDI) at industry level. Third, an analysis of OFDI at regional level. Analytically, this book offers dynamics of rise and evolution of Indian MNCs.

The first chapter by editors provides introduction to the book. The second chapter by Michael W. Hansen on ‘*In search of the Indianness of Indian Multinational Enterprises: Is There Anything Special about the Indian Path to Outward Foreign Direct Investment?*’ explains the trends in India’s OFDI in historical perspective and provides theoretical underpinning behind the different stages of OFDI. Author finds that India’s OFDI can be broadly classified into three phases. The first phase of 1970s and 1980s was mainly led by modest investments made in joint ventures (JVs) in Asia and Africa and was shaped by political and regulatory constraints and the policies of the Government of India. Second was the start up phase of 1990s and early 2000s which was largely an outcome of more liberal government stance on FDI. The third was the take-off phase which began in early 2000s. In the third phase, OFDI exhibited a totally different trend as compared to previous two phases in terms of growth, industrial composition, motives and destinations. While explaining the theoretical underpinning, author has elaborated three different conventional theories, *viz.*, the Investment Development Path Theory, the Latecomer Theory and the Country Specific Theory. In light of these theories, author attempts to explain the recent exponential surge in OFDI on three dimensions, *viz.*, the speed and direction of OFDI, the role of home country context in shaping ownership advantage and the motives behind OFDI. The author argues that all the three theories offer partial explanation of dynamics of OFDI in recent past but with important insights.

The third chapter on ‘*Political Factors behind the Rise of Indian Multinational Enterprises: An Essay in Political Economy*’ by Jørgen Dige Pedersen discusses about how the government policies directly or indirectly

were contributing to the OFDI. Author argues that state involvement was limited in the early period but a variety of state support mechanisms were put into place which benefitted the Indian MNEs and subsequently active investors abroad. Apart from the government policies, friendly diplomatic relations with most of the countries in the world were also one of the key determinants in deciding the composition and destinations of the Indian OFDI.

The fourth chapter by Joel Ruet on '*When a Great industry Globalizes: Indian Conglomerates Pioneering New Trends in Industrial Globalization*' provides analytical insight about the current dynamics of Indian OFDI and the Indian form of capitalism. It highlights that the Indian business houses which survived the licensed raj during the restrictive policy regime are now reinventing themselves under the new liberalised regime. The key factor that author underlines in explaining the success of Indian MNEs is their conglomerate structure. It helped them in catching up in production process-efficiency and technology while multiplying the opportunities for partnerships amongst Indian MNEs. Such conglomerate structure raised their borrowing capacity in the international market as well. Indian MNEs are increasingly rethinking their supply chains and entering new value chains of global opportunities. Indian MNEs also benefitted from the rising valuations of their stocks closely linked with rapid and steady growth. Another positive factor that bodes well for growing internationalisation of Indian companies is their increasing exposure to external competition from global MNEs in the domestic economy itself. Going forward, this will prepare them better to face global competition. Nonetheless, Indian MNEs need to accumulate technological skills and build their brand image. The author suggests (i) MNEs from EMEs like India need to have global strategies as they are likely to redefine world production system, (ii) low costs advantages have to be leveraged into double comparative advantage of fast capitalisation with powerful technological and brand based catching up, and (iii) explore dynamic links between the processes of growth and technological catching up using strategic joint ventures and acquiring technology portfolios. The message that author intends to convey is that expanding business houses from India reflect the growth of new business model of industrial globalisation by way of catching up through low cost innovation and the rapid use of capital to acquire new overseas units to enhance their global competitiveness.

There are two chapters in this book devoted to industry analysis of India's outward foreign direct investment supported by some theoretical approach. The fifth chapter by Giovanni Balcet and Silvia Bruschiery produces the case study highlighting the driving factors and strategies of select MNEs belonging to automotive and pharmaceutical Industries. In their analysis, authors have

observed that the growth of MNEs in these industries has been an outcome of capacity creation and capability formation supported by the government policy during mid 1970s. The capability formation was achieved through the continuous creative assimilation, accumulation of human capital and managerial skills improvement of production efficiencies and adaption of imported technologies and alliances with MNEs in developed countries. However, the era of liberalised regime, *i.e.*, post 2000, Indian MNEs have graduated to next developmental stage learning from the experiences of domestic market driven phase and leveraging acquisition in order to grow rapidly in global markets. Author also observes that there was wide heterogeneity and diversity among different firms in terms of corporate practices, competitive asset bundling and their linkages and leverages. Another case study done by Vinish Kathuria on two most important knowledge based industries, *viz.*, pharmaceutical and software tries to look in to the factors that explain the extent of OFDI in the IT and pharmaceutical industries and examined whether these factors are the same for both the industries. The author finds that drivers of OFDI of these two industries differ significantly. The possible reason of these differences may be due to different industrial sector, different history and uneven government policies in addition to firm specific diversity.

Last three chapters of this book have been devoted to the pattern of destination of India's ODFI. Nandita Das Gupta in a Chapter on "*Indian Companies Investing in the United States: An Inquiry into Recent Pattern and Trends*" has examined the recent trends and patterns of India's OFDI in the United States. The chapter provides details of the volume of OFDI going to the US, their industrial composition, age profile and size distribution of Indian MNEs investing in the US. Author also analyses the entry routes of OFDI like green-field and M&A, push and pull factors driving the OFDI from India to the US; and existing Indian ODFI projects in the US. Analysis shows that the Indian OFDI to the US has taken off since 2000. The major drivers behind this take off could be explained by the potential to give them access to better R&D and skill infrastructure, established brand names and available strategic assets available in the US. Author estimates that during 1975-90, more than one third FDI approvals to developed countries were directed to the US. In terms of actual flows, the share of US has risen from 6 per cent in 1975-90 to nearly 24 per cent in 1991-2001. With respect to the composition, during pre-2000 period, Indian FDI was dominated by manufacture sector particularly chemical and transport equipment with consistent rise over the time. However, knowledge based industries, *viz.*, software and IT, depository institutions, professional, technical and scientific services, have invested heavily since 2000. Based on

the age profile of 150 Indian MNEs in the US, the author reveals that around 54 per cent of them are less than 20 years old. One of the interesting findings of age profile and nature industry shows that the younger companies are predominantly invested in the service sector, while the older companies have concentrated mainly on the manufacturing sector. The liberalisation policies of the Government also changed the size distribution of the Indian MNEs from big industrial houses with minority stake in pre-1991 period mainly due to the prevailing restrictive regime to small firms. New MNEs also preferred acquisitions to Greenfield investment as their primary means to market entry. Author identifies that OFDI flows to the US can be attributed to a host of factors which includes host country factors (pull factors) as well as home country factors (push factors). Some of the important pull factors identified in this study are market size, liberal inward FDI policy, low taxes, high level of physical and institutional infrastructure and the need to acquire strategic resources while push factors include high domestic growth, increased corporate profitability, access to global financial markets, knowledge spillovers, competition from inward FDI and liberal and pro FDI government policy. Another remarkable finding in this chapter has been that the Indian MNEs are creating more job opportunities by bailing out US companies from closure or bankruptcy.

Chapter 8 on '*The Emergence of Indian Multinationals: An Empirical Study of Motives, Current Status, and Trends of Indian Investment in Germany*', by Rajnish Tiwari and Cornelius Herstatt, presents the results of an empirical survey conducted among Indian subsidiaries operating in Germany. Survey brings out the fact that the majority of Indian companies investing in Germany are from service sectors like software and IT industry (more than half of Indian companies), pharmaceuticals and the automotive industry. Important factors behind the Indian OFDI to Germany are long tradition of economic relations between these two countries, proximity to their customers and suppliers, large access to German market and availability of skilled labour. Another interesting finding of this survey study is that Indian MNEs are net job creators in the Germany. The study also finds that Indian subsidiaries have generally performed well and look forward to strengthen their operational presence in Germany, including research and development activities. However, the survey also highlights the challenges, including cross-cultural issues, being faced by Indian MNEs in Germany.

The last chapter authored by Parthapratim Pal on '*The Surge of Indian Outbound Foreign Direct Investment to Africa: A new Form of South-South Cooperation?*' is basically a case study of south-south co-operation. Author has studied the presence of Chinese MNEs and Indian MNEs in the African

countries and found that the presence of latter is far less than that of the former. India's total OFDI to African countries amount to US\$ 73 million during 1961-89 but their share in India's total OFDI was very high in those years. However, during recent years, these flows have increased phenomenally mainly in sectors, viz., chemicals oil and gas industries contributing around half of the total flows during 2000-07. Indian state owned oil companies are building an increased presence in natural resource based industries and becoming an established trend in African countries. In fact, author perceives African region as an increasingly contested economic battleground due to its resource richness and improved growth prospects.

To conclude, the book provides a sharp analysis of trend and issues pertaining to Indian MNEs. The contributors explore the rapid growth of Indian MNEs and provide different perspectives in terms of patterns and factors that led to their increasing presence in global economy. Some of the chapters throw light on the some of the interesting issues that have come up pertaining to the surge in outward FDI from India particularly during 2000s. Besides, there are some explicit messages for Indian MNEs for strengthening their presence in global markets. While growing presence of Indian MNEs has been largely attributed to the liberalised policies for outward investment pursued in recent years, the book is silent on a number of aspects. First, whether growing outward FDI partly reflects the low investment opportunities in domestic economy. In other words, the issue whether OFDI has been at the cost of domestic investment remains unanswered. Second, the book is based on industry-specific and country-specific case studies which highlight various aspects of OFDI from the perspective of industrial organisation and global business strategies. A chapter on macroeconomic perspective, particularly in the context of impact of OFDI on domestic investment, balance of payments, *etc.* could have added to utility of the book. This aspect is important as the policies with regard to OFDI are largely formulated keeping in view their macroeconomic implications. Third, in some chapters, Indian MNEs have been compared with those of China, a comparison on a broader set of EMEs could have been better, as from the analytical and policy perspective, other EMEs are perhaps more comparable with India than China in terms of domestic policy respective. Lastly, the chapter provides more on past trend in OFDI and strategies of MNEs but not much on outlook for the medium and long run.

**Arvind K. Jha\***

---

\*Assistant Adviser, Department of Economic and Policy Research, Reserve Bank of India, Mumbai.